

# Lornex

MINING CORPORATION LTD.

ANNUAL REPORT 1976

# Lornex MINING CORPORATION LTD.

<b>OFFICERS</b>	Honorary Chairman ..... E. H. LORNTZSEN Chairman and Chief Executive Officer ..... R. D. ARMSTRONG President and Chief Operating Officer ..... G. R. ALBINO Vice-President, General Manager ..... C. W. RENO Treasurer ..... J. VAN NETTEN Secretary ..... C. W. M. BURGE
<b>DIRECTORS</b>	G. R. ALBINO, Port Credit, Ontario W. A. ARBUCKLE, Montreal R. D. ARMSTRONG, Don Mills, Ontario D. M. CLARK, Vancouver E. B. GILLANDERS, Vancouver B. C. IRWIN, Vancouver N. B. IVORY, Montreal K. KAWAKAMI, Tokyo, Japan E. H. LORNTZSEN, Vancouver J. R. MacDONALD, Logan Lake, B.C. C. W. RENO, Logan Lake, B.C. J. H. SMITH, Toronto R. W. WRIGHT, CBE, London, England
<b>HEAD OFFICE</b>	580 Granville St. .... Vancouver
<b>MINE OFFICE</b>	P.O. Box 1500 ..... Logan Lake
<b>AUDITORS</b>	Coopers & Lybrand ..... Vancouver
<b>REGISTRAR AND TRANSFER AGENT</b>	National Trust Company, Limited ..... Vancouver
<b>SHARES LISTED</b>	Vancouver Stock Exchange
<b>THE ANNUAL GENERAL AND EXTRAORDINARY GENERAL MEETING</b>	11:00 a.m., Thursday, April 21, 1977 Prince of Wales Room, Hyatt Regency Hotel, 655 Burrard Street, Vancouver, British Columbia.



## DIRECTORS' REPORT TO THE SHAREHOLDERS

Net earnings for 1976 were \$15,903,000 or \$1.93 per share compared to \$626,000 or \$0.08 per share for the year 1975.

Net revenue from mine production, comprising revenue from copper, molybdenum and minor values of precious metals less applicable smelting, refining and marketing charges, increased to \$82,940,000 in 1976 from \$51,043,000 in 1975. Production of copper in concentrate increased from 107.2 million payable pounds in 1975 to 145.7 million pounds in 1976. The price of copper applicable to the Company's production moved moderately upward to mid-year and then declined to a level at the end of 1976 only slightly higher than at the beginning of the year. The gross copper revenue price per payable pound for the year averaged 65 cents as compared to 55 cents in 1975 and 72 cents in 1974. The method by which revenue from mine production is determined is described in the Accounting Policies section of this Report.

Earnings before taxes and royalty increased to \$29,966,000 from \$8,162,000 in 1975; these amounts are after interest charges on third party loans and after deducting interest on income debentures, amounting to \$4,330,000 to September 30, 1976 when they were repaid and \$5,379,000 in 1975, which interest was not deductible for income and mineral resource tax purposes. The provision for income and mineral resource taxes and government royalty was \$14,063,000 in 1976 compared to \$7,536,000 in the previous year.

The British Columbia government passed new tax legislation on June 30, 1976, effective January 1, 1976, which resulted in a modest reduction in total income and mineral resource taxes otherwise payable for the year. While the legislation eliminated government min-

eral royalties, commencing in 1977, it replaced the existing 15% mining tax with a 17.5% mineral resource tax and eliminated the deductibility of certain items in the calculation of provincial income tax. The new legislation requires that royalties continue to be paid on deliveries made in 1976. However, the amounts paid are recoverable by deduction from mineral resource taxes payable after January 1, 1976 at the rate of \$1.00 of deduction for every \$3.00 of mineral resource tax payable. As at December 31, 1976, the Company had paid \$1,955,000 in recoverable royalties which amount was not charged against earnings in 1976 since it is deductible from mineral resource taxes that will be payable in future years.

Comparative milling, metallurgical, production and shipping data for the years 1976 and 1975 are as follows:

	1976	1975
Tons of ore milled (thousands)	17,016	12,893
Average tons milled per operating day (note)	46,877	38,259
Average millhead grade		
— copper	0.511%	0.495%
— molybdenum	0.016%	0.016%
Average mill recovery		
— copper	86.7%	87.1%
— molybdenum	69.7%	74.3%
Pounds of payable metal		
in concentrate produced (thousands)		
— copper	145,712	107,160
— molybdenum	3,769	3,084
Pounds of payable metal		
in concentrate delivered (thousands)		
— copper	144,301	117,891
— molybdenum	3,782	3,170

Note: The mine and mill operations were closed for holidays for three weeks during August, 1975.

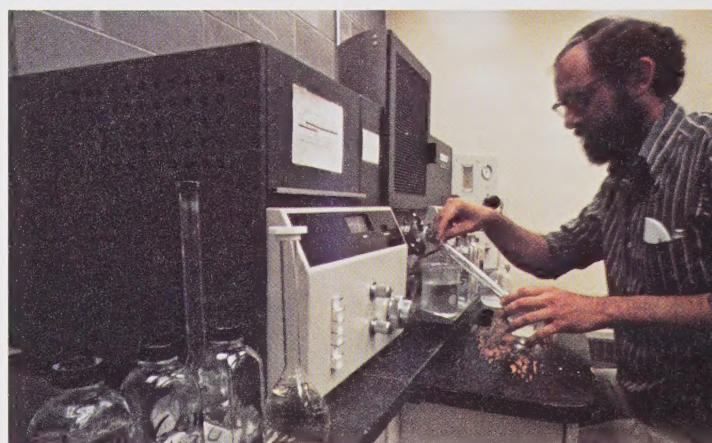


Although Lornex' wage rates and the costs of operating materials and supplies continued to escalate, unit operating costs in 1976 were at the same level as in the previous year as a result of improved efficiency in operations and higher volume.

The agreement of December 1, 1969, whereby the entire copper concentrate production from the two existing mill lines was contracted for by a consortium of Japanese companies until December 31, 1984, was amended on October 8, 1975 to provide for the delivery by Lornex of fixed amounts of copper concentrate in each of the years 1976 through 1979. Under the amending agreement Lornex obtained the right to sell elsewhere in each of these years copper concentrates available to it from production in excess of the revised commitment to the Japanese consortium and from accumulated inventories. An agreement with another purchaser dated as of May 1, 1975 provides for the delivery of fixed amounts of copper concentrates through 1979. Deliveries under these agreements, and a further delivery in 1976 to another customer, made it possible for production to be maintained at higher rates than otherwise would have been the case.

It also was agreed with the Japanese buyers on October 8, 1975 that Lornex would grant financial relief on a short term basis by way of temporary upward adjustments in the refining charge to be deducted from the selling price of shipments made from May 1, 1975 through March 31, 1977 and to negotiate in good faith during the first quarter of 1977 such terms and conditions as may be appropriate after March 31, 1977, when the temporary adjustments expire. These negotiations are currently in progress.

Net capital expenditures in 1976 were \$17,115,000. The major items were the purchase of open pit haulage trucks, a 22 cubic yard capacity electric shovel, tailings system revisions, additional employee housing and normal equipment replacements. In 1976 Lornex embarked on a program to increase the capacity of some equipment used in the









open pit operation. This comprises the addition of seven new 235 ton capacity trucks and the purchase of the new 22 cubic yard electric shovel referred to above to augment the five 15 cubic yard electric shovels now in service. The new shovel and truck fleet, when complete, will include the largest excavating and haulage units in use in metal mining in Canada. In addition, the planned overhaul of the 120 ton capacity truck fleet will extend the useful lives of these units. It is expected that capital expenditures in 1977 related to these programs will be higher than in 1976.

The third party capital debt arranged to finance the original development of Lornex in 1972 totalled \$86.8 million; in addition Lornex obtained \$44.1 million through the issue of Income Debenture units to Rio Algom (\$36.1 million) and The Yukon Consolidated Gold Corporation Limited (\$8.0 million) and obtained mortgage financing to develop the Logan Lake townsite. Repayment of the third party capital debt was completed in 1976 and, under the terms of its Income Debenture covenants, Lornex was then required to apply all of its available cash to repayment of this debt which, together with accrued interest, amounted to \$71 million at September 30, 1976. This debt was repaid in full on that date, mainly from the proceeds of new bank loans in the amount of U.S. \$70 million which are repayable on a target schedule basis over a five year term. The loans were arranged in United States funds primarily because Lornex' sales revenue is in this currency. The interest rate applicable to these United States dollar loans is also currently lower than on Canadian dollar loans and below the 8½% rate applicable to the Income Debentures that were repaid; the interest charges on these new loans are deductible for tax purposes and dividend restrictions are less rigid than those that were in effect while the Income Debentures were outstanding. The first repayment of U.S. \$7.0 million was made on February 15, 1977.

The estimated Lornex ore reserves were increased during the year by 98 million tons with an average

grade of 0.444% copper and 0.019% molybdenum as a result of a program carried out at the mine involving examination of new geological data and other technical information. The reserves at December 31, 1976 are currently estimated to be 500 million tons of ore with an average grade of 0.412% copper and 0.015% molybdenum. The reserves as now estimated will permit continuation of operation well beyond the year 2000 at the milling rate achieved in 1976.

The changes made in British Columbia's mineral resource taxation described earlier in this Report have resulted in a modest reduction in the total taxes that otherwise would have been provided by Lornex in 1976. The replacement of the royalty based on gross sales revenue by a tax on profits is a constructive action. However, provincial resource taxes are disallowed by both the Federal and British Columbia governments for their income taxation purposes. The new Federal Government resource allowance which replaces the mining tax abatement previously available is not expected to be as favorable to Lornex in the long term. Having regard to its high risk nature the total tax imposts on the mining industry continue to be inequitable by any reasonable standard. The uncertainty regarding the taxation and regulatory policies of the Federal and Provincial governments has created a climate in which investment decisions cannot be made with any degree of confidence. It is regrettable that actions of governments should have the effect of discouraging development in mining, which is one of the few industries in which Canada can be regarded as internationally competitive.

The legal action that had been initiated in 1975 by Lornex in conjunction with other mining companies to have the British Columbia Mineral Royalties Act declared unconstitutional and to recover payments made thereunder, was postponed twice during 1976 and has now been discontinued at the request of the plaintiffs.

Lornex is subject to the regulatory controls established under the Canadian Government's Anti-



Inflation Act and Regulations which became effective October 14, 1975. Since Lornex' sales are made entirely to export markets, its prices and profit margins are not subject to the controls; compensation programs, however, are subject to these controls. Collective agreements with the production and maintenance and office and technical employees, which expired on June 30, 1976, were renegotiated; the new contracts, which will be in effect until June 30, 1978, were amended to comply with Anti-Inflation Board decisions.

Reference was made earlier to the major refinancing transactions carried out by Lornex in September, 1976. These transactions included prepayment of the Income Debentures held by the Company's two principal shareholders and waiver by them of a substantial premium on the redemption of the Debentures. It was considered essential that the Board of Directors of the Company be changed so that the refinancing transactions could be considered by and, if deemed advisable, be approved by a quorum of the members of the Board who were disinterested in such transactions. To accommodate this, on September 8, 1976, Messrs. R. A. Hammond-Chambers, A. F. Lowell and J. A. Sadler resigned from the Board and Dr. E. B. Gillanders and Messrs. D. M. Clark and B. C. Irwin were appointed to take their places; Mr. J. R. MacDonald was also appointed a director to fill a previously existing vacancy.

Dr. E. B. Gillanders and Messrs. D. M. Clark, B. C. Irwin and J. R. MacDonald are not presenting themselves for re-election as directors so that there will be four vacancies on the Board of Directors to be filled at the forthcoming Annual General and Extraordinary General Meeting. It is intended that Messrs. R. A. Hammond-Chambers and A. F. Lowell, both of whom had served on the Board of Directors of Lornex prior to September 8, 1976, Mr. H. A. Pakrul, Vice-President, Controller of Rio Algom and Mr. J. Van Netten, Treasurer of the Company and Vice-President, Treasurer of Rio Algom, will be elected to fill these vacancies. Mr. K. Kawakami has reached retirement age under the Com-

pany's policy with regard to directors and accordingly will not present himself for re-election as a Director. It is intended that Mr. A. Fujisaki, President of Sumitomo Metal Mining Co., Ltd., will be elected to fill the vacancy created by Mr. Kawakami's retirement from the Lornex Board of Directors.

Mr. J. A. Sadler, who was a director of Lornex from September, 1965 to September, 1976, will retire as a Vice-President of Rio Algom in 1977 and will not present himself for election to the Lornex Board of Directors. Mr. Sadler made major and valuable contributions to Lornex during its critical early years. His fellow directors wish to record their appreciation for the distinguished manner in which he has served the interests of the Company.

At a directors' meeting following the Annual General Meeting of Shareholders held on April 27, 1976 Robert D. Armstrong, formerly President and Chief Executive Officer of the Company, was elected Chairman and Chief Executive Officer, and George R. Albino, who had been a Vice-President of the Company, was elected President and Chief Operating Officer.

The Directors of the Company wish to record their appreciation of the loyal and diligent efforts of all the individuals who contributed so substantially to the improvements that were achieved in all aspects of the Company's operating and commercial activities during 1976.

On behalf of the Board

R. D. Armstrong,  
Chairman and  
Chief Executive Officer

G. R. Albino,  
President and  
Chief Operating Officer.

Vancouver, B.C.,  
February 22, 1977.

## **Auditors' Report**

To the Shareholders of  
Lornex Mining Corporation Ltd.:

We have examined the statement of financial position of Lornex Mining Corporation Ltd. as at December 31, 1976, and the statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1976, and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, British Columbia  
February 3, 1977

COOPERS & LYBRAND  
Chartered Accountants



## **ACCOUNTING POLICIES**

The principal accounting policies followed by Lornex Mining Corporation Ltd. are summarized hereunder:

### **REVENUE FROM MINE PRODUCTION AND VALUATION OF CONCENTRATES AWAITING SHIPMENT**

Production is valued and taken into income as revenue from mine production at estimated realizable metal prices less provision for possible fluctuation in price; concentrates awaiting shipment are also valued on this basis. Adjustments are made to revenue from mine production with respect to concentrate shipments when the actual metal price is known and the final weight and assay adjustments are determined. Estimated smelting, refining and marketing charges are accrued at time of production and these charges are also adjusted with respect to shipments when the final weight and assay adjustments and marketing charges are determined.

At December 31, 1976 inventories of 35.0 million payable lbs. of copper and 0.8 million payable lbs. of molybdenum contained in concentrates awaiting shipment were valued as described above.

### **CONVERSION OF UNITED STATES CURRENCY**

The accounts in United States currency are stated in Canadian dollars on the following basis:

Current assets and current liabilities at year end exchange rates; all other assets and long term liabilities at rates in effect at time of transactions, and revenues and expenses at actual rates prevailing during the year.

### **MINE SUPPLIES**

Mine supplies are valued at average cost.



## **DEPRECIATION AND AMORTIZATION**

Depreciation is provided on mining equipment on a straight-line basis over the shorter of its physical life or the estimated life of the mine. The cost of plant and equipment, mining properties and preproduction expenditures is amortized on a unit-of-production basis over the estimated life of the mine.

## **INCOME AND MINERAL RESOURCE TAXES**

Income taxes are based on reported income which differs from taxable income. Differences arise when some revenues and costs, principally depreciation and mine development expenses, are reflected in different time periods for the financial statements than for income tax purposes. The tax effect of these timing differences is recognized in the accounts as deferred income taxes. This method is also being followed with respect to provincial mineral resource taxes.



## Statement of Financial Position

**DECEMBER 31, 1976**

(\$000's omitted)

	1976	1975
<b>CURRENT ASSETS:</b>		
Cash and short term deposits .....	\$ 19,825	\$ 10,141
Accounts and settlements receivable and prepaid expenses (note 4) .....	8,797	14,336
Concentrates awaiting shipment (note 4) .....	20,985	17,502
Mine supplies (note 4) .....	10,185	8,667
Total .....	<u>59,792</u>	<u>50,646</u>
Less:		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued liabilities .....	12,523	11,694
Payable to Rio Algom Limited .....	239	957
Provincial mineral resource taxes and royalties payable .....	5,721	2,730
Long term debt due within one year (note 4) .....	6,818	11,223
Total .....	<u>25,301</u>	<u>26,604</u>
<b>WORKING CAPITAL</b> .....	<u>34,491</u>	<u>24,042</u>
Plant and equipment, less depreciation (note 2) .....	97,990	87,022
Mining properties and preproduction expenditures less amortization (note 3) .....	39,660	41,516
	<u>137,650</u>	<u>128,538</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b> .....	<u>172,141</u>	<u>152,580</u>
Deduct:		
Long term debt (note 4) .....	62,263	66,952
Deferred income and mineral resource taxes .....	28,535	20,390
	<u>90,798</u>	<u>87,342</u>
<b>EXCESS OF ASSETS OVER LIABILITIES</b> .....	<u>\$ 81,343</u>	<u>\$ 65,238</u>
<b>OWNERSHIP EVIDENCED BY:</b>		
Capital stock (note 5)		
Authorized —		
9,500,000 common shares, par value of \$1.00 each		
4,500,000 Class A shares, par value of \$1.00 each		
Issued —		
8,253,062 common shares (8,226,062 shares in 1975) .....	\$ 8,253	\$ 8,226
Premium less discount on shares issued for cash (includes \$175 premium on shares issued under stock option plan in 1976 and \$64 in 1975) .....	3,197	3,022
Retained earnings .....	69,893	53,990
Total .....	<u>\$ 81,343</u>	<u>\$ 65,238</u>

Approved on behalf of the Board:

NEIL B. IVORY, Director

R. D. ARMSTRONG, Director



## Statement of Earnings

YEAR ENDED DECEMBER 31, 1976

(\$000's omitted)

	1976	1975
REVENUE:		
Net revenue from mine production .....	\$ 82,940	\$ 51,043
Investment and other income .....	1,503	842
	<u>84,443</u>	<u>51,885</u>
EXPENSES:		
Operating costs .....	33,572	25,141
Administrative and general expenses .....	6,913	5,677
Amortization and depreciation .....	8,002	5,917
	<u>48,487</u>	<u>36,735</u>
Operating profit .....	35,956	15,150
Interest on long term debt .....	5,990	6,988
Earnings before taxes and royalty .....	<u>29,966</u>	<u>8,162</u>
Income and mineral resource taxes and government royalty		
— Current .....	3,963	1,961
— Deferred .....	10,100	5,575
	<u>14,063</u>	<u>7,536</u>
NET EARNINGS FOR THE YEAR .....	<u>\$ 15,903</u>	<u>\$ 626</u>
NET EARNINGS PER SHARE .....	<u>\$ 1.93</u>	<u>\$ 0.08</u>

## Statement of Retained Earnings

YEAR ENDED DECEMBER 31, 1976

(\$000's omitted)

	1976	1975
BALANCE, beginning of year .....	\$ 53,990	\$ 53,364
Net earnings for the year .....	15,903	626
BALANCE, end of year .....	<u>\$ 69,893</u>	<u>\$ 53,990</u>



## Statement of Changes in Financial Position

YEAR ENDED DECEMBER 31, 1976

(\$000's omitted)

SOURCE OF FUNDS:	1976	1975
Operations		
Net earnings for the year .....	\$ 15,903	\$ 626
Add charges against earnings not involving current outlay of funds:		
Amortization and depreciation .....	8,002	5,917
Interest on Income Debentures .....	4,330	5,379
Deferred income and mineral resource taxes .....	10,100	5,575
Total funds from operations .....	38,335	17,497
Bank loans (U.S. \$70,000) .....	68,183	—
Housing loans (net) .....	630	86
Issue of common shares under stock option plan .....	202	74
	<u>107,350</u>	<u>17,657</u>
DISPOSITION OF FUNDS:		
Expenditures on plant and equipment (net) .....	17,115	2,794
Royalties recoverable .....	1,955	—
Reduction of long term debt:		
Repayment of Income Debentures and accrued interest .....	71,013	—
8¾% Notes .....	—	16,877
Bank loans (U.S. \$7,000) .....	6,818	—
	<u>96,901</u>	<u>19,671</u>
INCREASE (DECREASE) IN WORKING CAPITAL .....	10,449	(2,014)
WORKING CAPITAL, beginning of year .....	24,042	26,056
WORKING CAPITAL, end of year .....	<u>\$ 34,491</u>	<u>\$ 24,042</u>



## Notes to the Financial Statements

DECEMBER 31, 1976

### 1. ACCOUNTING POLICIES

The information on pages 7 and 8 presents a summary of certain accounting policies and is an integral part of these financial statements.

### 2. PLANT AND EQUIPMENT

	1976	1975
Plant and equipment at cost .....	\$122,939,728	\$106,841,010
Less accumulated depreciation .....	24,949,351	19,819,609
	<u>\$ 97,990,377</u>	<u>\$ 87,021,401</u>

### 3. MINING PROPERTIES AND PREPRODUCTION EXPENDITURES

	1976	1975
Mining properties at cost .....	\$ 1,233,179	\$ 1,215,281
Less accumulated amortization .....	173,874	133,035
	<u>1,059,305</u>	<u>1,082,246</u>
Preproduction expenditures at cost .....	46,213,477	46,214,117
Less accumulated amortization .....	7,612,565	5,780,222
	<u>38,600,912</u>	<u>40,433,895</u>
	<u>\$ 39,660,217</u>	<u>\$ 41,516,141</u>

### 4. LONG TERM DEBT

	1976	1975
8¾% Notes .....	\$ —	\$ 11,223,243
Less portion included in current liabilities .....	—	11,223,243
Long term portion .....	—	—
Bank loans (U.S. \$70,000,000) .....	68,182,750	—
Less portion included in current liabilities (U.S. \$7,000,000) .....	6,818,275	—
Long term portion (U.S. \$63,000,000) .....	61,364,475	—
Housing loans .....	898,373	267,648
8½% Series A Income Debentures due December 31, 1985 .....	—	44,093,000
Accrued interest on Income Debentures .....	—	22,590,663
	<u>\$ 62,262,848</u>	<u>\$ 66,951,311</u>

The 8½% Income Debentures due December 31, 1985 and the accrued interest thereon were repaid in full on September 30, 1976, comprising principal payments of \$44.1 million and accrued interest of



\$26.9 million; the parent company, Rio Algom Limited, received \$58.5 million of these amounts. The holders of the Income Debentures agreed to waive an early redemption premium of 8½% in consideration for early repayment. Funds for the repayment were obtained on September 30, 1976, mainly from the bank loans of U.S. \$70 million described below.

Repayment of the bank loans is secured by general assignments of the accounts and settlements receivable and by registered assignments under Section 88 of the Bank Act of all concentrates awaiting shipment and mine supplies. The interest rate on these loans is 1% above the minimum rate charged by the Canadian Imperial Bank of Commerce for United States dollar loans made in Canada; the December 31, 1976 rate payable was 7½% per annum.

Under the terms of the bank loan agreement the Company is required to repay, on February 15 and August 15 in each of the years 1977 to 1981 inclusive, a principal amount equal to the lesser of 75% of the available cash flow as defined or U.S. \$7,000,000.

## **5. CAPITAL STOCK**

During the year 27,000 common shares were issued for \$201,879 cash under a Stock Option Plan.

At December 31, 1976, 45,700 common shares were reserved for issue under a Stock Option Plan. Options may be granted to employees of the Company or of Rio Algom Limited. Outstanding options have been granted to purchase 19,600 common shares at prices varying from \$7.20 to \$8.65 per share; these options expire on varying dates from April 19, 1977 to April 22, 1980.

Payment of dividends is not restricted under the bank loan agreement provided that a minimum principal repayment of U.S. \$7,000,000 has been made semi-annually commencing February 15, 1977 and that the Company's working capital is maintained at not less than \$30,000,000.

## **6. COMMITMENTS AND CONTINGENT LIABILITIES**

- (a) Rio Algom has agreed to supervise and manage the business of the Company until December 1, 1984. The 1976 management fee was \$250,000 and the fee for future years is \$500,000 per annum escalated in accordance with a formula based on published government indices and subject to a maximum based on a percentage of the earnings before taxes.
- (b) The Company has a contingent liability to buy back houses and mobile home lots at the Logan Lake townsite for \$5,825,019 until December 31, 1982.
- (c) Estimated total cost to complete approved capital expenditures at December 31, 1976 was approximately \$14,515,000 of which \$10,303,000 was committed.
- (d) The Company is subject to the regulatory controls on prices, compensation and dividends established under the Canadian Government's Anti-Inflation Act and Regulations which became effective October 14, 1975.

## **7. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS**

The aggregate direct remuneration paid or payable by the Company to the Directors and Senior Officers of the Company was \$315,016 in respect of the year ended December 31, 1976. In addition, amounts, charged to earnings in prior years in respect of discretionary deferred bonus awards, totalling \$46,500 became payable to those individuals during 1976.







## LORNEX MINING CORPORATION LTD.

STATEMENT OF CHANGES IN  
FINANCIAL POSITION

for the six months ended June 30, 1976  
(000's omitted)

	1976	1975
<b>Source of Funds:</b>		
Operations		
Net earnings for the period	\$ 8,260	\$ 622
Add charges against earnings not involving current outlay of funds:		
Amortization and depreciation	3,796	2,928
Interest on Income		
Debentures, etc.	2,856	2,611
Deferred income and mineral resource taxes	8,850	3,818
Total funds from operations	23,762	9,979
Housing loans (net)	707	140
Issue of common shares under stock option plan	28	—
	24,497	10,119
<b>Disposition of Funds:</b>		
Expenditures on plant and equipment (net)	2,189	1,346
Royalties recoverable	1,309	—
Buyback of houses (net)	—	168
Reduction of long term debt 8 3/4% Notes	—	5,835
	3,498	7,349
<b>Increase in Working Capital</b>	<b>20,999</b>	<b>2,770</b>
Working Capital, beginning of period	24,042	26,056
Working Capital, end of period	\$ 45,041	\$ 28,826

Lornex

Lornex Mining Corporation Ltd.

Interim Report to the Shareholders

For the six months ended June 30, 1976



## TO THE SHAREHOLDERS:

Net earnings for the first six months of 1976 were \$8,260,000 compared with \$622,000 for the same period in 1975. The comparative earnings per share of common stock were \$1.00 and \$0.08 respectively.

The increase in net earnings was mainly due to higher net revenue from mine production, resulting from improved copper prices and increased production, partly offset by higher expenses and increased income and mineral resource taxes.

Copper prices have shown a rising trend since mid-February and London Metal Exchange prices were about 75 cents per pound in mid-July; in contrast LME prices dropped slowly through the first half of 1975 and were approximately 56 cents per pound in mid-July, 1975.

Copper production was up about 24% in the first six months compared to last year's first half due to increased tonnage milled, partly offset by slightly lower mill head grades. As previously reported, production levels at the Lornex mine have been increased in 1976 due to additional deliveries of copper in concentrate to a United States company; these deliveries commenced in May, 1975. The average daily milling rate was 45,559 tons per operating day in 1976 compared to 35,827 tons per day last year.

The comparative milling, metallurgical and production data for the first six months of each year were as follows:

	<u>1976</u>	<u>1975</u>
Tons of ore milled (thousands)	8,155	6,413
Average tons milled per operating day	45,559	35,827
Average mill head grade		
— copper	0.476%	0.502%
— molybdenum	0.017%	0.017%
Average mill recovery		
— copper	89.5%	87.6%
— molybdenum	77.7%	79.4%
Pounds of payable metal in concentrate produced (thousands)		
— copper	67,358	54,284
— molybdenum	2,087	1,694

Expenses have increased about \$4.4 million in total over the comparable period of last year. Operating costs and administrative and general expenses were higher but costs per ton milled were slightly lower in the first half of 1976 than for the comparable period in 1975. The favourable effect of increased production on unit costs more than offset the unfavourable effects of higher unit prices for labour and materials. The increase in amortization and depreciation was due to increased production.

Production of copper in concentrates was 67.4 million pounds for the six months and shipments for the period totalled 75.9 million pounds. Inventory was 25.1 million pounds as June 30, 1976 compared to 33.6 million pounds at December 31, 1975 and 56.3 million pounds at June 30, 1975.

The British Columbia government passed a new Mineral Resource Tax Act on June 30, 1976, effective January 1, 1976, which resulted in a slight reduction in taxes otherwise payable for the first six months of this year. While the Act eliminated government royalties, commencing in 1977, it replaced the existing 15% mining tax with a 17.5% mineral resource tax, and eliminated the deductibility of certain items in the calculation of provincial income tax.

Royalties will have to continue to be paid on deliveries made in 1976, but the total amounts paid in 1976 will be recoverable by way of deductions from mineral resource taxes payable from January 1, 1976 onward, at the rate of \$1.00 deduction for every \$3.00 in mineral resource tax payable.

Collective bargaining agreements have been signed with the United Steelworkers of America and have been submitted to the Anti-Inflation Board for approval. The previous contracts expired June 30, 1976 and the new contracts will expire June 30, 1978.

Repayment of the Company's 8 3/4% Notes was completed by a final payment of \$1.7 million on May 17, 1976.

**R. D. ARMSTRONG**  
Chairman and  
Chief Executive Officer.

**G. R. ALBINO**  
President and  
Chief Operating Officer.

August 6, 1976.

## LORNEX MINING CORPORATION LTD.

### STATEMENT OF EARNINGS

for the six months ended June 30, 1976  
(000's omitted)

	<u>1976</u>	<u>1975</u>
<b>Revenue:</b>		
Net revenue from mine production	\$ 41,884	\$ 27,440
Investment and other income	637	571
	<u>42,521</u>	<u>28,011</u>
<b>Expenses:</b>		
Operating costs	16,211	13,188
Administrative and general expenses	3,267	2,792
Amortization and depreciation	3,796	2,928
	<u>23,274</u>	<u>18,908</u>
Operating profit	19,247	9,103
Interest on long term debt	3,074	3,549
Earnings before taxes and government royalty	16,173	5,554
Income and mineral resource taxes and government royalty	7,913	4,932
Net earnings for the period	<u>\$ 8,260</u>	<u>\$ 622</u>
Net earnings per share of common stock	<u>\$ 1.00</u>	<u>\$ 0.08</u>

Approved on behalf of the Board:

R. D. Armstrong, Director  
G. R. Albino, Director

Subject to year end audit and adjustments.